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13 June 1980

MEMORANDUM FOR: Chief, Administrative Staff/RMS-CTS

FROM:

Chief, SIS Support Staff

SUBJECT: Awards for Senior Officers Detailed to RMS/CTS

1. The following are informal answers to your questions to  concerning SIS/SES and other categories of cash awards for senior officers detailed to RMS/CTS from other federal agencies on a reimbursable basis:

a. How would RMS/CTS recommend, approve and pay awards to SES officers detailed to RMS/CTS from other government agencies?

-- We queried Mr. Ron Ardley of the Office of Personnel Management (OPM) about SES procedures or FPM regulations on the awarding of rank stipends and performance awards to officers detailed from other government agencies. He advised that there is no specific guidance contained in the FPM 920 series (SES) on this subject.

-- Mr. Ardley offered his view that where a detail does not exceed 120 days, the assigning agency (parent agency) should be the organization responsible for recommending an award since they would be more familiar with the officer's performance over the full rating period. Supporting recommendations or concurrence in the award recommendation from the agency of detail (host agency) would, of course, be desirable.

-- He further stated that in the event of a longer-term detail assignment, the host agency should initiate the performance award recommendation and submit it to the parent agency for approval by the agency head or appointing authority.

-- In the case of rank stipend recommendations for SES detailees it was Mr. Ardley's opinion that the recommendation should originate in (or be forwarded through) the parent agency for Performance Review Board (PRB) consideration before submission to OPM.

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-- In the case of RMS/CTS performance awards and rank stipend recommendations, it would seem appropriate for the DCI/DDCI to send recommendations (initiated by RMS or CTS) to the parent agency for their required performance review board action. If and when the parent agency approves the performance awards (or OPM recommends approval of a rank stipend), RMS/CTS would then provide funds to the parent agency for the payment of these awards or stipends.

b. May SES or SIS officers receive cash awards apart from the SES or SIS awards systems?

-- FPM 920-29, "SES Performance Incentive Pay, and Award Provisions of the CSRA" and FPM 540-5, "The Role of Cash Awards in the Merit Pay System" (copies attached) state that SES members are eligible for invention, suggestion and special achievement awards under existing cash awards programs. Bonuses or awards for SES excellence in performance or outstanding achievement are provided for under the CSRA or the CIA SIS plan. The two awards systems would appear to be mutually exclusive, with the former providing "spot" awards for one-time achievements or acts and the latter rewarding sustained excellence in performance during the rating period.

-- Concurrence by the parent agency in awards for invention, suggestion and special acts would appear desirable. Procedurally such recommendations would go to the parent agency for approval and payment, which would then be reimbursed by RMS/CTS.

c. May supergrade officers detailed from State, DIA or NSA receive bonuses (SES category) or cash awards (outside CSRA provisions)?

-- As you are aware, all three of these agencies have their own versions of SES legislation pending before Congress. Until Congress acts, we do not believe these officers are eligible for SES/SIS performance awards and rank stipends. Special Achievement or Exceptional Accomplishment Awards could be considered for special acts under the separate cash awards program mentioned in subparagraph b, if RMS/CTS so desires and can make funds available.

d. May we grant cash awards to active duty military officers detailed to RMS/CTS?

-- It is our understanding that military officers are not eligible for the performance category of cash awards.

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However, payment of cash awards is authorized for suggestions, inventions, or scientific achievements. In the past, payment of special allowances to active duty military officers detailed to the Agency was made in a limited number of cases where uniqueness of their CIA mission or work requirements dictated. However, this was not considered a payment for excellence in performance but rather an inducement to accept a hazardous assignment.

e. May Executive Pay Level Officers, not included under SIS/SES, receive cash awards?

-- OPM advises that political (as opposed to career) appointees to Executive Level III and above positions who are selected by presidential appointment and subject to Senate confirmation are not eligible for cash awards. This applies to the DCI and the DDCI. The status of the DDCI for Resource Management is not so clear, since he was not so appointed or confirmed. Our contacts at OPM knew of no instance where an officer at Executive Level III or above had received a cash award.

f. What is the maximum dollar amount an Agency head may approve for a cash award?

-- According to [redacted] the Agency limit is \$5,000. OPM may approve awards not in excess of \$25,000 for a "highly exceptional and unusually outstanding contribution or achievement." When the "protection of sensitive operations, developments and accomplishments is necessary," the DCI may approve such awards instead of OPM.

2. I apologize for the tentative nature of much of the information, but it reflects the fact that we (and the rest of the Executive Branch) are breaking new ground on SES/SIS awards. There are no real "experts" and implementation policies and procedures are still evolving. Some of your questions involve legal considerations which should be checked with the Office of General Counsel before implementation, but we believe that OGC too would find it difficult to make definitive rulings until the status of the government-wide awards programs are further clarified. Hopefully, the Executive Committee meeting on 18 June will provide some indication of policies or at least directions for the SIS awards program. We stand ready to work closely with you in developing awards policies and procedures applicable to RMS/CTS and to assist in preparing any RMS/CTS proposals for DCI/DDCI consideration and approval.

Attachments: a/s

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# Federal Personnel Manual System

## FPM Bulletin

Special Bulletin # 71

Bulletin No. 920- 29

Washington, D. C. 20415  
October 16, 1979

**SUBJECT:** SES Performance Incentive Pay, and Award Provisions of the CSRA

### Heads of Departments and Independent Establishments:

To attract, retain, reward and motivate highly competent executives, certain provisions of the Civil Service Reform Act (Public Law 95-454) authorize the granting of special recognition, awards, and incentive payments to members of the Senior Executive Service who hold career appointments. Specifically, these payments and recognition include bonuses for excellence of performance (performance awards under 5 U.S.C. 5384) and the awarding of ranks and accompanying stipends for sustained accomplishment and sustained extraordinary accomplishment (meritorious and distinguished executive rank under 5 U.S.C. 4507).

In addition to the above, all SES members may be considered for other kinds of awards (e.g., for inventions, suggestions, special acts, etc.) under 5 U.S.C. 4502 through 4505. Information about such awards is found in FPM Chapter 451 and is not covered in this bulletin.

Except as otherwise authorized by law, the cost of awards to SES members must be borne by the agencies in which they are employed. Because bonuses and stipends are a significant part of executive compensation, it is important that each agency head anticipate the need for resources necessary for their payment, budget for them, and manage agency finances so that executives whose contributions merit awards receive them.

Although awards authorized under Sections 4507 and 5384 of title 5 differ in certain respects as to eligibility, frequency, amounts payable, etc., there are also similarities and interrelationships between the two types in that:

1. only SES members holding career appointments are eligible;
2. awards must be given as lump sum cash payments;
3. both kinds of awards are granted in recognition of high caliber work performance;
4. the total of an employee's basic salary, bonus cash award for performance, and rank stipend may not in any one fiscal year exceed the annual rate payable for Executive Level I in effect at the end of the same fiscal year;
5. award payments are neither subject to retirement fund contributions nor are such sums creditable for inclusion in the "high-three" average pay computation for retirement benefits.

Attachment 1 to this bulletin provides guidance for agencies to use in establishing and administering SES bonus payment programs. OPM guidance relating to the awarding of SES ranks and accompanying stipends is contained in Attachment 2. Attachment 3 includes copies of the pertinent sections of 5 U.S.C. which govern the granting of both kinds of awards.

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**Inquiries:** Executive Personnel and Management Development, (202) 632-3782

**Code:** 920- Senior Executive Service

**Distribution:** Limited, Heads of Agencies and Departments, and Asst. Secretaries for Administration (or equivalents)

**Bulletin Expires:** July 20, 1980

FPM Bulletin 920-29 (2)

Please note that in accordance with Attachment 2 of this bulletin nominations for Meritorious and Distinguished ranks should be made by April 15, 1980. Nominations should be sent to:

Associate Director for Executive Personnel  
and Management Development  
Office of Personnel Management  
1900 E Street, N.W.  
Washington, D.C. 20415

It should be noted that, as used in this bulletin and the Attachments, "agency", "senior executive", and "career appointee" have the meanings set forth in 5 U.S.C. 3132 (a).



Jule M. Sugarman  
Deputy Director

Attachments (3)

## PERFORMANCE AWARDS (BONUSES) IN THE SES

Background

To encourage and reward excellence in performance by career appointees in the Senior Executive Service, 5 U.S.C. 5384 authorizes agency heads to make lump sum cash payments to deserving executives.

Awards Amounts

By law, a member of the SES may not receive in any fiscal year a bonus amount which exceeds 20 percent of the executive's basic SES pay rate established by the President. (One of the six SES pay rates). There is a further restriction that the total amount paid to a member of SES during any fiscal year for basic salary, stipend for rank, and bonus may not exceed more than the annual basic rate payable for Executive Level I in effect for the same fiscal year. Note that the 20 percent limitation on bonus amounts is calculated on basic SES pay rate established by the President, not on payable salary. Each agency head shall ensure that bonus payments correspond to quality of performance by executives. At an agency's option, any payment schedules adopted may express award amounts in terms of a percentage of the recipient's basic pay rate, as fixed dollar amounts, as a proportional share of total bonus funds available, or other method of distribution, provided that the resulting distribution of cash payments reflect a direct correlation with the degrees of executive contribution being rewarded. Agencies should, as a matter of good management, guard against any tendency toward awarding maximum possible bonus amounts to larger segments of the executive population than can be justified on the basis of exceptional performance. Normally, payment of all or even most bonuses at the 20 percent maximum amount would reflect poor compensation management. There are no legal restrictions on the minimum bonus payment. However, private sector experience has shown that where bonus amounts are either sparse and/or automatic they do not motivate executives. The OPM recommends that no payment of less than 3 percent of basic pay rate be made, unless unusual circumstances prevail. Awards below 3 percent not only tend to "demotivate," but also waste bonus entitlements and funds which could be utilized to better reward a more deserving executive. Agencies should scrupulously avoid any scheme for awarding bonuses which is not grounded primarily in performance (e.g., rotation).

Budgeting

Agencies must include an adequate sum in budget requests to cover SES performance awards and stipends for SES ranks. It is recommended that annual agency budgeted costs for both SES awards should normally be in the range of from 6 percent to 10 percent of total basic SES payroll in the agency. Some factors which will influence the determination of the size of an agency's awards budget include: (1) judgment of the agency head as to the award amounts necessary to help achieve the agency's goals and objectives, (2) the number of SES positions in the agency, (3) the number of career SES appointees, and (4) agency expectations as to the number and kind of awards to be made, including the number of rank nominations to be made. It is not, however, appropriate to fail to budget adequately for SES awards in an effort to reduce an agency's budget, nor is it appropriate to divert funds budgeted for this purpose to other objects rather than make warranted performance awards.

Numerical Limitations

The number of SES bonus awards that may be granted by an agency head in any fiscal year is legally restricted to 50 percent of the total number of filled and vacant SES positions (including General and Career Reserved) that have been allocated to the agency by

Attachment 1 to Btn. 920-29 (2)

OPM. This limitation does not apply to an agency which has a total allocation of 3 or fewer SES positions.

It should be noted that application of the above criteria determines the maximum number of SES bonuses legal for an agency. Agencies, of course, are not required to award the maximum number and should carefully avoid the automatic use of 50 percent of total SES in making awards. Agency heads are responsible for ensuring that the maximum number of performance awards are given out only when there is a clear demonstration that executive performance levels in the agency merit it.

The head of an agency may apportion or assign bonus allocations to segments of the agency provided, of course, that such apportionment constitutes a reasonable and equitable distribution.

Eligibility

All career appointees in the SES are eligible for consideration for bonus awards. To qualify, the SES member must: (1) receive a performance rating of not less than "fully successful" in the most recent appraisal of the executive's performance conducted in conformance with an agency system which has been approved by OPM (ref. FPM Bulletin No. 920-6) and (2) be recommended for an award by an appropriate performance review board (PRB) established in the executive's employing agency in accordance with 5 U.S.C. 4314 (c) (ref. also to FPM Bulletin No. 920-9).

When the above requirements have been met, the agency head may either personally act on PRB bonus recommendations or action may be taken by others under delegations of authority that may be established within the agency. Records of approved bonus awards should be placed in the employee's official personnel folder.

Time of Alloting Awards

There is no requirement that all awards be recommended at the same time, although there are obvious advantages of linking the performance evaluation to fiscal year plans and accomplishments. But even if an agency staggers recommendations for bonuses, some system must be established which would coordinate actual authorization of bonuses so that deserving individuals are not arbitrarily precluded from receiving bonuses because the agency's maximum number of awards had been given out earlier in the year.

Presentation

Bonus awards should be presented by the agency head or other high ranking official of the agency at an appropriate ceremony. A certificate, or other recognition item, could also be presented.

Attachment 2 to Btn. 920-29 (1)

AWARDING OF RANKS AND STIPENDS IN THE SES

Background

To recognize prolonged, high quality accomplishment by members of the Senior Executive Service, 5 U.S.C. 4507 authorizes the President to approve the awarding of ranks and accompanying stipends to a select number of executives who hold career appointments.

The Awards

Two types of awards are available under Section 4507:

1. Meritorious Executive - for sustained accomplishment. This award includes a lump sum payment of \$10,000 from the recipient's employing agency.
2. Distinguished Executive - for sustained extraordinary accomplishment. This award includes a lump sum payment of \$20,000 from the recipient's employing agency.

A certificate signed by the President and a distinctive pin will also be included with each of the above awards.

A lump sum paid under Section 4507 is in addition to basic salary. However, by law, the aggregate of an executive's basic pay, bonus, and stipend received in any fiscal year may not exceed the annual pay rate for Level I of the Executive Schedule in effect at the end of the same fiscal year.

Eligibility

All career appointees in the SES are eligible for consideration for the ranks of Meritorious Executive and Distinguished Executive. The performance for which a nomination for an award is submitted shall have been sustained over a minimum period of 12 months. Preferably, the executive's performance over several years should be taken into account. Any individual who receives a rank of either Meritorious Executive or Distinguished Executive shall not be entitled to receive that same award during the following four fiscal years.

To provide for progression in the awarding of ranks, a nominee for Distinguished Executive normally shall have received the rank of Meritorious Executive. An exception may be made, however, in a case where an executive's achievements are of such an exceptional nature that only the highest rank permissible would serve as a fitting award.

Budgeting

The funds needed for stipends for SES ranks should be included in budget requests along with the amount needed for SES bonuses as described in guidance on bonuses. (Agencies with comparatively few SES positions, if they wish to nominate one or more executives for an SES rank, will normally need to budget from 8 to 10 percent of total SES basic payroll costs. Small agencies which do not plan to make any rank nominations, and large agencies may find that a budget of from 6 to 8 percent of SES payroll will generally be adequate.) The total amount budgeted (6-10 percent) should cover ranks and bonuses combined.



Attachment 2 to Btn. 920-29 (2)

Criteria

A nominee must have demonstrated (a) sustained accomplishment for Meritorious Executive, and (b) sustained extraordinary accomplishment for Distinguished Executive. Factors to be considered include, but are not limited to, the following:

- (a) demonstration of the qualities of strength, leadership, integrity, industry, and personal conduct of a level that establishes and maintains a high degree of public confidence and trust;
- (b) career achievements that are generally recognized throughout the agency or are acknowledged on a national or international level;
- (c) successful use of human resources as evident through high workforce productivity, effective development and recognition of subordinates, and achievement of equal opportunity goals;
- (d) demonstration of personal initiative and innovation in overcoming obstacles to achieve organizational objectives;
- (e) improvements in quality of work, efficiency and/or timeliness of performance;
- (f) achievement of significant cost reduction enabling the agency to reallocate resources to high priority activities;
- (g) unusual levels of cooperative efforts with other Federal agencies and governmental jurisdictions;
- (h) especially successful efforts in affirmative action;
- (i) record of accomplishment in a variety of programs and agencies.

It is expected that nominees normally will meet many of the foregoing criteria. In all cases nominees should reflect credit on the career civil service.

Procedures

The head of an agency may annually submit nominations to the Office of Personnel Management (Attn: Associate Director for Executive Personnel and Management Development), no later than the 15th of April of each year. While there are no statutory restrictions on the number of individuals an agency may nominate for an executive rank, Government-wide limitations are imposed by law in that, in any fiscal year, (a) the number of Meritorious Executive awards may not be greater than 5 percent of the SES positions total and (b) Distinguished Executive awards may not exceed 1 percent of the total number of SES positions authorized. Accordingly, agencies should consider both the legal restrictions and the table below as a general guide to the number of rank nominations that would be reasonable for agencies to send to OPM each fiscal year:

<u>Total Number of Agency SES Positions</u>	<u>Number of Nominations</u>
1 to 15	1
16 to 50	1 to 3
51 to 75	3 to 5
76 to 120	5 to 7
above 120	6% of total SES

Nominations will be considered strictly on the basis of merit and not on the basis of agency size or number of nominations from an agency. The agency should indicate for each nominee, which rank is being recommended. When an agency submits more than one nomination for the same rank, the agency's order or priority should be indicated. An individual nominated for Distinguished Executive will, if eligible, be automatically considered for Meritorious Executive if OPM does not consider the award of the higher rank appropriate. Nominations shall be signed by the agency head and the documentation submitted with each case should include (a) a completed OPM Form 1390; (b) a justification statement (not to exceed two pages) which includes:

Attachment 2 to Btn. 920- 29 (3)

- brief description of scope and importance of nominee's work
- extent of ingenuity, innovation, and dedication demonstrated by the executive in dealing with critical issues, problems, and the achievement of important goals and objectives,
- beneficial results achieved through the nominee's leadership,
- effectiveness in the management of human resources,
- major career-related awards and honors received (indicate dates); and (c) a copy of pertinent portions of the executive's recent performance evaluation deemed by the agency to support the nomination. The nominations should also cover as a minimum the criteria elements listed earlier in this attachment. Section 4313 of 5 U.S.C. also contains useful general guides related to SES performance appraisal.

Selection

Acting either on its own or with the assistance of an advisory panel that may be established by the Director, the Office of Personnel Management will review agencies' nominations and will recommend to the President, for approval, candidates for Meritorious or Distinguished Executive. A nominee not selected for a rank award should receive agency consideration for other kinds of awards authorized under 5 U.S.C. (An individual may, of course, receive an honorary rank and additional awards or recognition to the extent to which they are merited and not restricted by law). Records of approved rank should be placed in the employees' official personnel folder.

Presentation and Public Awareness

Awards should be presented by the agency head or other high-ranking official of the agency at an appropriate ceremony. It is highly desirable that family, friends, colleagues, and subordinates of recipients be present and, if possible, media representatives. Information about contributions recipients have made should be disseminated to the general public and the Federal workforce. Agency payment of ceremonial expenses is authorized under 5 U.S.C. 4503.

Awarding Ranks in the First Year of SES Operation

The SES went into effect on July 13, 1979 and the initial bonus payments, in most cases, will not be payable until late in 1980. There is no time restriction on the awarding of ranks. Accordingly, OPM is authorizing an initial awarding of ranks as early as individuals who deserve special recognition can be identified. For this reason, we are calling on agencies to nominate executives for Meritorious and Distinguished ranks by April 15, 1980. Since a fully documented record of sustained SES performance will not be available at that time, agencies should be careful to nominate only those career executives whose performance over a significant period has been generally recognized as exemplary.

**§ 4507. Awarding of ranks in the Senior Executive Service**

(a) For the purpose of this section, "agency," "senior executive," and "career appointee" have the meanings set forth in section 3132(a) of this title.

(b) Each agency shall submit annually to the Office recommendations of career appointees in the agency to be awarded the rank of Meritorious Executive or Distinguished Executive. The recommendations may take into account the individual's performance over a period of years. The Office shall review such recommendations and provide to the President recommendations as to which of the agency recommended appointees should receive such rank.

(c) During any fiscal year, the President may, subject to subsection (d) of this section, award to any career appointee recommended by the Office the rank of—

- (1) Meritorious Executive, for sustained accomplishment, or
- (2) Distinguished Executive, for sustained extraordinary accomplishment.

A career appointee awarded a rank under paragraph (1) or (2) of this subsection shall not be entitled to be awarded that rank during the following 4 fiscal years.

(d) During any fiscal year—

(1) the number of career appointees awarded the rank of Meritorious Executive may not exceed 5 percent of the Senior Executive Service; and

(2) the number of career appointees awarded the rank of Distinguished Executive may not exceed 1 percent of the Senior Executive Service.

(e) (1) Receipt by a career appointee of the rank of Meritorious Executive entitles such individual to a lump-sum payment of \$10,000, which shall be in addition to the basic pay paid under section 5382 of this title or any award paid under section 5384 of this title.

(2) Receipt by a career appointee of the rank of Distinguished Executive entitles the individual to a lump-sum payment of \$20,000, which shall be in addition to the basic pay paid under section 5382 of this title or any award paid under section 5384 of this title. (Added, Pub. L. 95-454, Oct. 13, 1978; 92 Stat. 1170.)

**§ 5384. Performance awards in the Senior Executive Service**

(a) (1) To encourage excellence in performance by career appointees, performance awards shall be paid to career appointees in accordance with the provisions of this section.

(2) Such awards shall be paid in a lump sum and shall be in addition to the basic pay paid under section 5382 of this title or any award paid under section 4507 of this title.

(b) (1) No performance award under this section shall be paid to any career appointee whose performance was determined to be less than fully successful at the time of the appointee's most recent performance appraisal and rating under subchapter II of chapter 43 of this title.

(2) The amount of a performance award under this section shall be determined by the agency head but may not exceed 20 percent of the career appointee's rate of basic pay.

(3) The number of career appointees in any agency paid performance awards under this section during any fiscal year may not exceed 50 percent of the number of Senior Executive Service positions in such agency. This paragraph shall not apply in the case of any agency which has less than 4 Senior Executive Service positions.

(c) Performance awards paid by any agency under this section shall be based on recommendations by performance review boards established by such agency under section 4314 of this title.

(d) The Office of Personnel Management may issue guidance to agencies concerning the proportion of Senior Executive Service salary expenses that may be appropriately applied to payment of performance awards and the distribution of awards. (Pub. L. 95-454, Oct. 13, 1978, 92 Stat. 1172.)

Office of Personnel Management

FPM Bulletin 540-5

## Federal Personnel Manual System

### FPM Bulletin

Bulletin No. 540-5

Washington, D. C. 20415  
September 4, 1979

SUBJECT: The Role of Cash Awards in the Merit Pay System

#### Heads of Departments and Independent Establishments:

Proposed regulations covering merit pay and cash award programs established by the Civil Service Reform Act were published in FPM Bulletin 540-3. Section 540.206 of those proposed regulations would require agencies subject to the Merit Pay System to establish a plan for administering a cash award program and to furnish a copy of the plan to the Office of Personnel Management (OPM).

In anticipation that the substance of the proposed regulations relating to cash awards will not be materially changed, we are transmitting, in the attachment to this bulletin, guidance on the role and recommended uses of cash awards in the Merit Pay System. The purpose of this guidance is to reinforce the intent of the Civil Service Reform Act to highlight the importance of cash awards in rewarding superior accomplishments.

The attachment describes the rationale for a cash award program and outlines what are expected to be the more common uses of cash awards. It is important to note that each agency will bear the major responsibility in designing a cash award program consistent with its needs and objectives and interrelated with its performance appraisal program and merit pay system.

While the language of the new cash award program in section 5403 of title 5, U.S.C., is virtually identical to that of the existing incentive awards program in chapter 45 of title 5, U.S.C., the cash award program under section 5403 becomes effective when an agency actually converts to the Merit Pay System. Until that time, agencies may continue to use their existing authorities under the incentive awards program of chapter 45 to grant monetary awards to supervisors and management officials for job-related superior accomplishments.

*Jule Sugarman*  
Jule M. Sugarman  
Deputy Director

Attachment

NOTE. This Bulletin is being issued in both the Special and Regular Bulletin systems.

Inquiries: Office of Leave and Pay Administration Policy, Compensation Division  
extension 48960 or 254-8960

Code: 540, Merit Pay and Cash Awards

Distribution: FPM

Bulletin Expires: July 20, 1980

## Attachment to FPM Bulletin 540-5

I. Background

The cash award program in section 5403 of title 5, United States Code, is an integral part of the pay-for-performance system and the President and Congress wished to highlight this fact by joining the cash award program with the Merit Pay System in the Civil Service Reform Act. Under the cash award program, the head of an agency and the President may pay a cash award or grant honorary recognition to a merit pay employee. These awards may be based on a suggestion, invention, superior accomplishment, or other personal effort that contributes to the efficiency, economy, or other improvement of Government operations or achieves a significant reduction in paperwork. An award could also be granted to a merit pay employee who performs a special act or service in the public interest in connection with or related to the employee's Federal employment.

The head of an agency may pay a cash award in any amount up to \$10,000 to recognize and reward merit pay employees. However, at an agency's request, the Office of Personnel Management (OPM) may approve a higher amount up to \$25,000. While the maximum award which may be granted is quite large, and will be given only occasionally, many types of employee accomplishments may merit smaller cash awards which could be granted more frequently. (Examples are given later in this attachment.)

The law also provides that the President may pay a cash award to recognize and reward merit pay employees. A Presidential cash award may be in addition to an agency cash award, and the maximum amount of a Presidential cash award may not exceed \$10,000.

II. Cash Awards vs. Incentive AwardsA. Legislative Intent

The cash award provisions in chapter 54 of title 5, United States Code, parallel the incentive award provisions of chapter 45 for employees other than merit pay employees. This reflects the intent to reposition the statutory language to specifically focus the attention of agencies and individual agency managers on cash awards and to sanction and encourage their use in pay-for-performance determinations. A reading of the legislation reveals that a number of reasons for granting a cash award may not be directly related to the employee's assigned job duties. It is expected that in those instances the cash award program will continue to recognize these non-job-related actions independent of pay decisions which address job-related performance. Thus, there is no intent to use these aspects of cash awards any differently than incentive awards in chapter 45. However, in the case of superior accomplishment of assigned job duties, it is expected that the performance appraisal will generally drive a manager's consideration of the appropriateness of a cash award in addition to a merit pay increase to base pay or in place of a merit pay increase where such an increase may not be appropriate. For the remainder of this attachment, the focus will be on cash awards as they relate to superior accomplishment that is tied to job-related actions.

## B. Precedence and Consistency

Previous Civil Service Commission guidance made distinctions between sustained superior performance awards and other types of monetary recognition. In effect, separate provisions of law provided agencies with two ways to acknowledge superior performance: (1) permanent increases to basic pay through quality step increases and (2) one-time additional pay increases through incentive awards. Commission guidance distinguished advantages and disadvantages of each type of award but ultimately left it to the judgment of the agencies on which type of acknowledgment was more appropriate. Under the Reform Act, there continue to be two approaches to pay-for-performance within the Merit Pay System: (1) permanent increases to basic pay through merit pay adjustments and (2) one-time additional pay increases through cash awards. Thus, the Reform Act serves to strengthen the past relationship between cash awards and superior job-related performance.

## III. Bonus: A Compensation Tool

### A. Concept

What is a bonus? A dictionary-type definition might define a bonus as something given in addition to or over and above what is usual or strictly due. With a bonus, there is no ongoing expectation on the part of the employee or commitment on the part of the organization. But how does the bonus concept relate to the Merit Pay System?

The Merit Pay System is based on compensation philosophy that underscores the use of a range of basic pay for each grade to reward employee performance. By law, regulation, and policy, the minimum and maximum pay rates in the range for each grade represent the minimum and maximum dollars the organization will ordinarily pay (in basic salary), regardless of the quality of the performance of the individual in a particular position. The challenge for any merit pay system is to ultimately position employees in the rate range, based on performance, and to pay them a basic salary consistent with the organization's policy.

Related to the use of the rate range is a corollary concept of compensation philosophy that supports the use of a bonus, which in the case of the Merit Pay System, is the performance-related cash award. This concept is that sometimes legitimate reasons and circumstances may exist where base salary is either insufficient or inappropriate to recognize the nature or level of the contribution made. In such cases, a bonus or cash award is deemed more suitable and justifiable while still maintaining the positive thrust of rewarding quality performance.

### B. Appropriate Uses of Cash Awards

When should a cash award be granted? What should the possibility of earning a cash award be? There are no simple answers to these questions because of the almost infinite variety of circumstances which may exist within an organization that influence the use of cash awards. For example, cash awards may be appropriate for (1) an employee who has performed in an outstanding manner on a

single assignment yet has been in the organization only a short time at the conclusion of a performance appraisal cycle; (2) an employee who has performed in an outstanding manner on a detail of either short or long duration; (3) an employee who is at or near the maximum of the rate range and whose exceptional performance on a particular project warrants special one-time recognition beyond what could be handled within the rate range; (4) an unusual, one-time employee accomplishment that merits only a relatively small monetary award that is appropriate as an "on-the-spot" award; or (5) a significant employee accomplishment that an agency wishes to reward immediately instead of waiting until the following October merit pay adjustment. In addition, a cash award may be appropriate in very limited circumstances as a supplement but not as a substitute for the merit pay pool. For example, organization "A" has four employees; one is rated outstanding, and three are rated minimally satisfactory. Organization "B" also has four employees, but all four are truly outstanding and are rated as such. Presuming that all of these performance ratings are accurate and that there is no additional flexibility to further increase or redistribute the agency's merit pay pool (which might occur as the result of the restriction on reallocating merit pay funds across appropriation lines), a difficult pay problem would face the organization since virtually all of the merit pay pool funds must be distributed to each organization as initially allocated. Therefore, the one outstanding employee in organization "A" will receive a very substantial pay increase while in organization "B" each of the four outstanding employees will receive only an average increase. In such a circumstance, cash awards could be used to supplement merit pay increases in organization "B" and to insure that these employees are appropriately recognized for their contributions. Please note that even though OPM considers this example to be a proper use of cash awards, agencies must be very cautious and judicious in using cash awards as a supplement to basic pay. Cash awards should never serve as an automatic safety valve or become a non-judgmental, standard operating procedure.

Another situation where a cash award might be appropriate is where the agency wishes to recognize superior accomplishments that merit a one-time cash bonus but do not warrant a permanent increase in base pay. These cash awards could be made in conjunction with merit pay increases to more fully compensate the supervisor's or manager's total contribution to the organization. Agencies, however, should not use cash awards as a substitute for merit pay. These two programs are conceptually different, as evidenced by their differing effect on the employee's basic pay. Together, cash awards and merit pay form a unified, flexible package for rewarding high performance and for distinguishing between employee contributions.

It must be emphasized that it is the combination of events and circumstances plus the use of managerial judgment which should determine the use of these cash awards rather than any single criterion, such as the linking of a final performance appraisal rating to an automatic cash award. However, a list of potentially influencing factors might include: nature, frequency and level of accomplishments; importance of the accomplishments to the organization; employee's time on the job and position in the rate range; effort expended; work environment; availability of funds; recent or pending promotion; pay

compression; recognition of a specific performance-related factor such as reduction in paperwork; or an employee's past receipt of a cash award (specifically, the amount, reason and time since the last award).

#### C. Flexibility of Cash Awards

Under the new Merit Pay System, managers must review all employees and make specific pay decisions. Consideration and use of the cash award program can substantially enhance a manager's flexibility to appropriately recognize employee performance and contribution.

While there is no question that the statutory language from the incentive awards provisions in chapter 45 was placed under the Merit Pay System and designated "Cash Award Program" to highlight its presence and usefulness as a managerial compensation tool for merit pay employees, the nature of its utilization should not create an expectation in the employee's mind of an unlimited and virtually automatic flow of funds. The "over and above" concept should be preserved while still providing a prominent place in the Merit Pay System for such employee rewards. The important point is to assure that cash awards will be considered both when managers review their employees to determine direct compensation adjustments in October and throughout the fiscal year when a more immediate monetary award is appropriate. OPM would view the institutionalization of cash awards of specific dollar amounts with automatic linkage to specific performance levels as having the effect of diminishing the effectiveness of cash awards as part of the pay-for-performance system. Furthermore, such a linkage was not envisioned as a part of the system while drafting the merit pay legislation. To summarize, agencies should avoid (1) an automatic linkage between a single criterion and a cash award and (2) any appearance that cash awards simply augment the ongoing merit pay program.

#### IV. Award System: Merit Pay vs. SES

Although the Merit Pay System and the Senior Executive Service (SES) both contain bonus provisions, there are significant differences in how these bonuses operate. Although there are six levels of basic pay in SES, these are single rates and not a rate range. Consequently, bonuses become the primary motivating and rewarding force. In addition, even though comparability-type adjustments are possible each year, they are not guaranteed. In the past, there has been severe salary compression at these levels. Therefore, bonuses of up to 20 percent of base pay constitute the major compensation feature in SES.

Under the Merit Pay System, there is a range of basic pay of approximately 30 percent for each grade. Adjustments to the pay structure take place annually through comparability adjustments and, even more important, employees can advance within the pay range as a reward for performance. In this system, bonuses (cash awards) are expected to represent only a small percentage of overall salary expenditures.

In summary, both the Merit Pay System and SES are pay-for-performance systems, but they use bonuses in quite different ways. Since SES is being developed in the agencies first, there must be caution used not to automatically transfer the SES bonus concept directly to an agency's merit pay plan without a careful analysis of the systems' differences.



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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

SIS Certificates

FROM: Harry E. Fitzwater  
Director of Personnel Policy,  
Planning, and Management

EXTENSION

NO.

PERS 80-5030 80-1242

DATE

10 JUN 1980

TO: (Officer designation, room number, and building)

DATE

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. Deputy Director of Central Intelligence

4/14/80

W 6/11  
DC/ber

2. DD/PPPM  
17 JUN 1980  
STAT 3. D/PPPM

4. Chief, SIS/SS

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May I suggest that at a morning meeting you present the attached SIS certificates to the SIS charter members. In addition, certificates are attached for

Harry E. Fitzwater

Atts

He did not  
Present them

4. Short letter prepared  
by SD CI transmitting  
SIS certificates to  
attached listed  
employees.